*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever, for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

# BLU SPA HOLDINGS LIMITED

# 富麗花•譜控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

## CLARIFICATION
## AND
## PRICE FLUCTUATION ANNOUNCEMENT

Reference is made to the Announcement made by the Company on 28 June 2002 relating to the health inspection permits of the Products in the PRC and the concerns raised by the non-executive Director, Wai Suk Chong, Helena, on the Announcement. The Board wishes to advise that Ms. Wai's concerns are related to (i) an amount of HK$500,000 paid by the Company on behalf of one of the PRC Distributors to the Consultant in July 2001 for the application fees paid for the health inspection permits of the Products in the PRC and the non-disclosure of the sponsorship of the Amount in the Prospectus; (ii) the ability and qualification of the Consultant; and (iii) the recoverability of the PRC Receivables from the PRC Distributors. The Company's response to Ms. Wai's concerns is set out below.

The Stock Exchange has indicated that it may further investigate into matters set out in this announcement and reserves its rights to take any appropriate action.

The Board notes the fluctuation in the share price of the Company today, save for this announcement, the Board is not aware of any other reasons for such fluctuation.

**Shareholders should exercise caution when dealings in shares of the Company.**

Unless otherwise defined, terms used herein have the same meanings as those defined in the announcement made by the Company on 28 June 2002 (the "Announcement") relating to the health inspection permits of the Products in the PRC.

**Background**

Further to the Announcement, with regard to the concerns raised by the non-executive Director, Wai Suk Chong, Helena, ("Ms. Wai") on the Announcement, the Board has ascertained certain concerns with Ms. Wai which are set out below.

**Concerns**

The Board understands that Ms. Wai's concerns relate to:

1. an amount of HK$500,000 (the "Amount") paid by the Company to a consultancy firm "北京舒康醫療技術開發有限公司" in Beijing, the PRC (the "Consultant") in July 2001 on behalf of one of the PRC Distributors responsible for the Guangdong Province (the "Guangdong Distributor") for the fees and expenses in connection with the application of the health inspection permits of the Products in the PRC. Ms. Wai queried why the Company had to pay the Amount to the Consultant on behalf of the Guangdong Distributor and requested the Company to recoup the Amount and the non-disclosure of the sponsorship of the Amount in the prospectus of the Company dated 4 February 2002 (the "Prospectus");

2. Ms. Wai also is not satisfied with the qualification of the Consultant because based on the scope of business as stated in the business licence of the Consultant, it does not specifically cover the provision of services regarding the application of health inspection permits in the PRC on behalf of personal care and cosmetic companies. Ms. Wai doubted whether the Amount has been paid to the Consultant and the reasons for the delay in obtaining the health inspection permits; and

3. Ms. Wai also expressed concerns as to the sales pertaining to the PRC Receivables given their overdue days and as to the recoverability of the PRC Receivables from the PRC Distributors.

**The Company's response**

The Company's response to Ms. Wai's concerns is as follows:

1. Although the PRC Distributors are responsible for applying for the health inspection permits of the Products in the PRC with assistance of the Group in terms of the provision of documents and/or materials required by the application, the Amount was to sponsor the Guangdong Distributor in the payment of fees and expenses in connection with the application of the health inspection permits of the Products in the PRC (approximately

HK$350,000 being the application fees for laboratory tests and specialist panel assessments and approximately HK$150,000 being the agency fee paid to the Consultant). After taking into consideration of, inter alia, the fact that the Guangdong Distributor does not have the exclusive distribution right for the entire PRC, it may not be reasonable to require the Guangdong Distributor to bear the entire cost of application, especially during the market development stage where the Group had not provided advertising and marketing support or been requested to contribute expenses of exhibitions and trade shows participated by the PRC Distributors, and it is more efficient and cost effective for one of the PRC Distributors to handle all the applications for the Products to avoid any duplication of work and cost. Reasons to have the Guangdong Distributor to apply for the permits are threefold: firstly, the Guangdong Distributor is the first distributor appointed by the Group in China; secondly, they have an established and substantial trading record with the Group; and thirdly, they have specially trained staff with product's knowledge and are familiar with product's ingredients and experienced in handling the translation and coordination work with the Consultant and the Company. Given the Amount was sponsored in July 2001, based on the business relationship between the Company and the Guangdong Distributor and its business performance, the Company's PRC legal adviser confirmation that the health inspection permit is for and attached to the particular Products as well as the circumstances and progress of the health inspection permit applications, the Company has decided that it will not recoup the Amount from the Guangdong Distributor.

The Board considers that payment of the fees and expenses to the Consultant on behalf of the Guangdong Distributor in July 2001 in connection with its application of the health inspection permits of the Products was a business decision made by the management of the Company at that time which was aimed to enhance the business relationship between the Company and the Guangdong Distributor. At the time of preparing the Prospectus, the Board considered that this information was not of particular material nature which should warrant separate disclosure in the Prospectus. As disclosed in the accountants' report of the Prospectus, the Amount was classified as intangible assets and subject to amortization.

The Company has been advised by the Guangdong Distributor that as at 31 July 2002 a total of five health inspection permits of the Products in the PRC have been obtained (two of which were handled by the Consultant and issued in June 2002) whilst 38 applications (all of which were handled by the Consultant) are in progress and, barring unforeseen circumstances, the majority of those applications are expected to be issued by the authority in the PRC in stages within six months from the date of this announcement.

The Company and the Guangdong Distributor has been advised by the Consultant that in addition to the payment of the Amount, and given the response from the PRC authority so far, it is possible that further payment for additional laboratory tests (for re-test of certain Products, if required) and specialist panel assessments (for re-assessment of certain Products, if required) for an estimated aggregate amount of approximately HK$230,000 may be required to be paid to the PRC authority depending on the progress of the 38 applications. If such eventuality should occur, the Company may have to bear those additional costs which are attributable to the Company's failure to provide sufficient information/materials required by the PRC authority.

Given the fact that it is the responsibility of the PRC Distributors to apply for the health inspection permits of the Products in the PRC, and that no specific reference was made in the subsisting distributor agreements as to the payment responsibility of the relevant fees and expenses in connection with the application of the health inspection permits of the Products in the PRC, for the avoidance of doubt, it has been decided by the Company that all future PRC Distributors will be specifically required under their respective distribution agreements (including renewal of such agreements) to share the application fees and expenses for the health inspection permits of the Products in the PRC in a proportion to be determined by the board of directors of the Company on a case by case basis. Whilst the subsisting distributor agreements are still in force, this provision cannot be incorporated at this stage but it is proposed that upon the respective renewals of the distributors agreements with the PRC Distributors, including that of the Guangdong Distributor, such provision will be incorporated in the revised distributor agreements.

The Guangdong Distributor has confirmed in writing to the Company that it is required under the PRC relevant rules and regulations to apply for the health inspection permits for the Products and that it is the applicant of all the issued and applied health inspection permits of the Products in the PRC. The Guangdong Distributor has also confirmed to the Company the appointment of the Consultant in July 2001 as its agent for handling the applications for the health inspection permits of the Products in the PRC and the Consultant was responsible for the preparation, submission and coordination of the documents and/or materials required under the PRC relevant rules and regulations. The Consultant has confirmed in writing to the Company that it is independent of the Guangdong Distributor, the Company and its connected persons (as defined under the GEM Listing Rules). The Directors also confirmed that the Consultant is independent of the Company and its connected persons.

2. The Consultant has confirmed in writing to the Company and provided it with the business licence that it has properly registered with the local Industry, Commerce and Administration Bureau and despite that there is no specific reference in its business licence as to the provision of services regarding the application of health inspection permits in the PRC on behalf of personal care and cosmetic companies, it has been engaged in agency activities of foreign and local health care and cosmetic products and the provision of general consultancy services since 1999. Further, the Consultant has advised that apart from the Company, it has also provided similar services to other foreign personal care and cosmetic companies. The Company's PRC legal adviser confirmed that it is legal and permissible under the PRC laws and regulations for the Consultant to engage in the provision of agency services in the application for the health inspection permits of the Products on behalf of the Guangdong Distributor.

   The Consultant has confirmed in writing and provided evidence to the Company that it had duly received the Amount for the application fees and expenses in relation to the application of the health inspection permits of the Products in the PRC. The Consultant explained that the prolonged delay in obtaining the health inspection permits of the Products in the PRC were due to, inter alia, the ineffective communication between the Guangdong Distributor, the Consultant and the Company as to the technical and ingredient related information and data of the Products required by the PRC health authority.

3. Approximately 95.2% of the PRC Receivables as at 30 June 2002 (amounted to approximately HK$1 million) were supported by sales contracts entered into between the Company and three PRC Distributors and an initial deposits of 30% of the contract sum had also been paid by these PRC Distributors. Principal reason for the three PRC Distributors' delay in their payment of the PRC Receivables are attributable to the non-acceptance by these PRC Distributors as to the partial delivery of the Products due to the failure of the Company to make full delivery of the Products in accordance with the terms of the relevant sales contracts. The aforesaid Products are in Hong Kong pending acceptance by the three PRC Distributors and the Directors confirmed that principally these Products are in saleable conditions.

The Company has expended efforts in recovering the PRC Receivables including the negotiation with the relevant three PRC Distributors as to the acceptance of the aforesaid Products and the negotiation with the other distributors as to possible take up of the aforesaid Products by the other distributors. The Board considers that these negotiating efforts are an ongoing process and falls within the normal course of business of the Company, thus no announcement was made in this regard. Based on the unaudited management accounts of the Group for the year ended 30 June 2002, the total PRC Receivables amounted to approximately HK$1.05 million as at 30 June 2002 (as compared to approximately HK$1.55 million as at 31 March 2002). Audit on the accounts of the Company for the year ended 30 June 2002 has commenced and the Company has preliminarily discussed with its auditors to make full provision on those PRC Receivables which were overdue for 120 days or more. On this basis and based on the unaudited management accounts of the Group for the year ended 30 June 2002, the amount of provision to be made is estimated to be approximately HK$0.78 million. However, subject to the finalisation of the audit for the year ended 30 June 2002, additional provisions may be required on the PRC Receivables if circumstances necessitate. Further announcement will be made upon finalisation of the year end audit and the publication of the annual results for the year ended 30 June 2002. Notwithstanding this proposed provision, the Company will continue its efforts in collecting these PRC Receivables. The Board is reviewing the Company's current terms of sales with the PRC Distributors and is considering various appropriate measures to be taken to improve the collection of the PRC Receivables including increase of initial deposit, shortening the credit period and tightening the selection process in respect of the PRC Distributors in order to improve the overall trade receivables of the Group in the PRC.

**Conclusion**

Given the above explanation of the Amount, the PRC legal opinion, the progress of the applications of the health inspection permits of the Products in the PRC and the efforts expended in recovering the PRC Receivables, the Board is of the opinion that Ms. Wai's concerns have been fully addressed despite the fact that Ms. Wai remains dissatisfied with the Company's response to her concerns. So far as the Company understands, Ms. Wai remains doubtful as to (i) whether the Amount was paid to the Consultant and the non-disclosure of the sponsorship of the Amount in the Prospectus; (ii) the Consultant's ability and qualification in assisting the Company in the application and obtaining of the health inspection permits of the Products in the PRC; and (iii) whether the sales pertaining to the PRC Receivables were actually made.

The Company will report in its forthcoming annual report and quarterly reports the latest status of the granting of the health inspection permits of the Products in the PRC and the recoverability of the PRC Receivables.

**Latest status**

Up to the date of this announcement, the Group has not been advised by any of the PRC Distributors of any impact on their sale and distribution of the Products in the PRC due to the pending issue of the relevant health inspection permits in the PRC nor is the Group aware of any impact on any of the PRC Distributors and/or any licensed retail outlets in the PRC for the sale and distribution of the Products in the PRC.

The Stock Exchange has indicated that it may further investigate into matters as set out in this announcement and reserves its rights to take any appropriate action. **Shareholders should exercise caution when dealings in shares of the Company.**

**Price fluctuation**

The Board notes the fluctuation in the share price of the Company today, save for this announcement, the Board is not aware of any other reasons for such fluctuation.

The Board also confirms that there is no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Chapter 19 to 20 of the GEM Listing Rules, neither is the Board aware of, save for disclosed above, any matter discloseable under the general obligation imposed by Rule 17.10 of the GEM Listing Rules, which is or may be of price sensitive nature.

By Order of the Board
**BLU SPA HOLDINGS LIMITED**
**Law Kin Ming, Alfred**
*Vice-Chairman*

Hong Kong, 19 August 2002

*This announcement, for which the directors of the Company (save for the non-executive director, Ms. Wai) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the*

*Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors (save for the non-executive director, Ms. Wai), having made all reasonable enquires, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website for a least seven days from the date of its posting.*